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LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

2006

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LEGAL & GENERAL INSURANCE LIMITED

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Registered office

Temple Court,
11, Queen Victoria Street,
London EC4N 4TP

Registered in England & Wales No 423930

LEGAL & GENERAL INSURANCE LIMITED
BOARD OF DIRECTORS

Directors

J B Pollock, (Chairman)

J E Dale, A C A

A J Dawson

P M Edmonds, F I A

M J Hotson

M A Lawler, A C A

R P Sewell, F C A

Secretary

C A Davies

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

The directors submit their annual report together with the audited financial statements of Legal & General Insurance Limited for the year ended 31 December 2006

Business review and principal activity

The Company is an insurance company authorised in the UK, the principal activity of which is the transaction of general insurance business in the personal sector marketplace

Following a strategic review of activities during the first quarter of the year the business is pursuing a strategy focused on the housing marketplace. There is a significant change programme underway to ensure that the business has the capability to deliver sustainable long term target returns across the range of distribution channels operating in this marketplace

As part of the above review a decision was made to exit the motor underwriting marketplace. This was announced on 25th May 2006 with policy renewals ceasing on 1st September 2006 and the portfolio running off over a twelve month period. The associated exit and restructuring provisions are included within these financial statements

The performance of the business during the year reflects these structural changes as the business begins the process of positioning itself for future growth and the development of propositions that satisfy the competitive conditions encountered across its range of distribution channels

Result for the year and dividend

The results of the Company show a pre-tax loss of £3.2 million (2005 profit £40.5 million). Details of which are set out on pages 11 and 12. The directors do not recommend the payment of a dividend (2005 £105 million)

Key performance indicators ("KPIs")

In addition to the pre-tax performance noted above, a number of other KPIs are monitored by the Board

	<u>2006</u>	<u>2005</u>
Year end shareholder funds	£128m	£130m
Gross written premiums	£324m	£336m
Combined operating ratio	105%	100%

The combined operating ratio is

$$\left[\frac{\text{Net incurred claims}}{\text{Net earned premiums}} + \frac{\text{Expenses + Net commission}}{\text{Net written premiums}} \right] \times 100$$

Future Outlook

Going forward the business will continue to evolve its strategy around the housing marketplace and we expect to see growth in 2007 gross written premiums. Further actions will be undertaken to enhance our operational and underwriting capability in this area as we develop appropriate propositions for the range of distribution channels we operate in

On 13th February 2007, following an ongoing review of our Healthcare proposition during 2006, we announced our decision to cease underwriting this product line during 2007. We will cease to renew policies from 2nd July 2007 and have entered into an arrangement with AXA PPP Healthcare Limited to introduce our customers to them on renewal over the following twelve month period

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

Directorate

The names of the present directors are shown on page 2

During the year the following changes occurred

C R R Avery resigned 10/08/2006
J B Pollock appointed 10/08/2006
R A Phipps resigned 30/08/2006
M J Hotson appointed 01/11/2006

Since 31 December 2006, the following change to the directorate has occurred P J Richmond resigned on 02/02/2007

Directors' share interests

No director had any interest in the shares of the Company during the year ended 31 December 2006

J B Pollock is a director of the ultimate holding company, Legal & General Group Plc, and his interests in the shares of Legal & General Group Plc are shown in the accounts of that company

According to the Register of Directors' Share Interests kept by the Company, the remaining directors had interests, within the meaning of the Companies Act 1985, in the ordinary shares of 2 5p each on 31 December 2006 in the Company's ultimate holding company, as shown below

	At 1 January 2006*	At 31 December 2006
J E Dale	89,486	113,931
A J Dawson	34,859	42,730
P M Edmonds	168,518	158,082
M J Hotson	28,847	28,880
M A Lawler	398	8,538
P Richmond	80,105	92,293
R P Sewell	81,808	84,365

(* or date of appointment, if later)

Included in directors' share interests shown above are, where applicable, shares purchased and/or awarded under the Employee Share Plan, the Restricted Share Plan and the Share Bonus Plan

Details of these share schemes are disclosed in the accounts of the ultimate holding company

In addition to the interests listed above, the directors (not including those whose options are disclosed in the accounts of the ultimate holding company) held options over shares in the ultimate parent company. Options have been granted under the following schemes: the Legal & General 1999 Company Share Option Plan, the Legal & General 1999 Executive Share Option Scheme, the Legal & General Group Plc Savings-Related Share Option Scheme (1991) and Legal and General 1999 Savings-Related Share Option Scheme. Details of options granted, exercised and lapsed, together with totals of options held, are set out in the table on the following page.

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

	At 01 01 06 *	Granted during year			Exercised during year			Lapsed Options	At 31 12 06
		CSOP	ESOS	SAYE	CSOP	ESOS	SAYE		
J E Dale	95,867	-	-	-	-	-	-	-	95,867
A J Dawson	12,467	-	-	-	-	-	-	-	12,467
P M Edmonds	106,797	-	-	-	-	25,000	-	-	81,797
M J Hotson	39,819	-	-	-	-	-	-	-	39,819
M A Lawler	-	-	-	-	-	-	-	-	-
P J Richmond	147,187	-	-	-	977	60,842	17,181	-	68,187
R P Sewell	239,495	-	-	5,532	-	150,000	10,309	-	84,718

(* or date of appointment, if later)

Principal risks and uncertainties

The company's business involves the acceptance and management of risk. The process of risk acceptance and risk management is managed through a risk framework, comprising formal committees, risk assessment processes and review functions with formal updates to the Board. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed. The principal risks and uncertainties facing the company are noted in the table below.

Market and Economic Conditions

Competitor activity and changes in customer buying patterns would impact the achievement of sales targets. A number of Legal & General Insurance Limited (LGI)'s business channels have close links to the housing market. Uncertainty in this market would restrict sales opportunities and adversely impact profitability. The LGI strategy focussed on household insurance means LGI has limited product diversification, and the ASU product would be impacted by any downturn in economic conditions.

Weather Catastrophe Events

Buildings insurance cover is likely to be significantly affected by climate change in the longer term. The risk of adverse claims experience is fully assessed and reserved for, and reinsurance is in place to protect against a 1 in 200 year event, but a severe storm or a series of serious weather events (including subsidence) would impact the profitability of the business. If the event was coupled with the default of a re-insurer this may significantly impact the capital available to LGI and the Group.

Confidence in the Financial Services Sector and specifically LGI

Events in the financial services sector outside the control of LGI and the Group may impact earnings and profitability. Historically such events have included:

- Failings by competitors,
- Actions by regulators within the industry, or
- Adverse performance of investment markets, or
- Adverse media

In addition internal processes and customer service standards while carefully controlled and managed may fail or be impacted by say fraud or terrorist action giving rise to adverse customer reaction and a resultant loss of sales.

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

Resources

L&G has market-leading expertise in a number of the markets in which it operates. The firm as part of a larger Group actively focuses on retaining the best personnel and ensuring that key dependencies do not arise through employee training and development programmes, remuneration strategies and succession planning. However, the loss of key personnel may impact earnings for the relatively specialist general insurance business.

Regulation and Legislation

There are a number of aspects to the way in which legislation and regulation impacts LGI:

Taxation policy

Regulation of product design

Prudential capital

Conduct of business

Additionally, there is an increasing international dimension and volume of regulation and legislation change. LGI's activities and strategies are based upon prevailing legislation and regulation. Significant changes in legislation, and differing interpretation and application of regulation over time, may have a detrimental effect on LGI's strategy and profitability.

Outsourcing and Key Supplier Risk

There are some core LGI functions which are outsourced, and the reliance on suppliers to satisfy buildings and contents claims involves LGI in the management of a number of customer related third party relationships. Despite the rigorous selection process including supplier financial evaluations and the preparation of contingency plans to maintain service, the financial failure of a third party or provision of inadequate service would impact the reputation and regulatory compliance of LGI.

United Kingdom Employees

The Company has no employees, instead it uses staff from within Legal & General Group. It is Group policy to treat its employees without discrimination and to operate equal opportunity and employment practices designed to achieve this end. Furthermore, it is Group policy to give full and fair consideration to applications for employment made by disabled persons, to continue, wherever possible, the employment of staff who became disabled and to provide equal opportunities for the training and career development of disabled employees.

The Company and Group seek to achieve a common awareness among staff of corporate objectives and performance, financial and economic factors affecting the business and other matters of concern to them as employees. During the year staff were provided with information through briefings by managers, training courses, staff newspapers and circulars.

Creditors

The Legal & General Group agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms provided the supplier meets its obligations. Creditor payment days are carefully monitored in the Group, using systems that record the actual purchases and payments. The Company has no trade creditors and therefore the average number of creditor payment days is nil. The creditor payment days presented are for the Group as a whole. Legal & General Group estimates that average creditor payment days in 2006 were 31 days (2005: 33 days).

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

Disclosure of information to Auditors

Each of the directors, at the date of approval of this report, confirms that

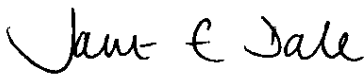
- so far as the director is aware, there is no relevant information of which the Company's auditors are unaware and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provision of Section 234ZA of the Companies Act 1985

Auditors

An elective resolution has been passed by the Company's shareholders, pursuant to Section 386 of the Companies Act 1985, whereby the Company is not required to hold an Annual General Meeting, lay the Company's Report and Accounts before the shareholders or reappoint auditors each year

By Order of the Board



J E Dale
Director
13 March 2007

LEGAL & GENERAL INSURANCE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and which comply with the relevant provisions of the Companies Act 1985. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates which are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors confirm that they comply with the above requirements

The directors are also responsible for

- ensuring that the Company has suitable internal controls for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company,
- safeguarding the assets of the Company, and
- taking reasonable steps for the prevention and detection of fraud and other irregularities

LEGAL & GENERAL INSURANCE LIMITED

Report of the Independent Auditors to the shareholders of Legal & General Insurance Limited

We have audited the financial statements of Legal & General Insurance Limited for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2006, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and loss before tax, are disclosed in notes 1(b) and 17.

LEGAL & GENERAL INSURANCE LIMITED

Report of the Independent Auditors to the shareholders of Legal & General Insurance Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 March 2007

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Technical account - General business	Note	2006 £'000	2005 £'000
Earned premiums, net of reinsurance			
Continuing operations		312,198	304,300
Discontinued operations		12,062	31,667
Gross premiums written	2	324,260	335,967
Outward reinsurance premiums		(26,844)	(24,720)
		297,416	311,247
Change in the gross provision for unearned premiums		5,551	(4,875)
Change in the provision for unearned premiums, reinsurers' share		1,666	(1,127)
		7,217	(6,002)
Earned premiums, net of reinsurance		304,633	305,245
Claims incurred, net of reinsurance			
Claims paid - gross amount		206,052	197,185
- reinsurers' share		(3,543)	(5,547)
		202,509	191,638
Change in the provision for claims - gross amount		(4,822)	11,413
- reinsurers' share		419	720
		(4,403)	12,133
Claims incurred, net of reinsurance		198,106	203,771
Changes in other technical provisions, net of reinsurance		65	144
Net operating expenses	3	114,756	105,654
Change in the equalisation provision	17	3,809	4,443
		316,736	314,012
Balance on the technical account for general business		(12,103)	(8,767)

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Non-technical account	Note	2006 £'000	2005 £'000
Balance on the general business technical account		(12,103)	(8,767)
Investment income	5	22,675	21,969
Unrealised gains on investments	5	-	715
Investment expenses and charges	5	(13,756)	(1,394)
Profit on sale of subsidiary	8	-	27,968
Continuing operations		544	47,480
Discontinued operations		(1,268)	(6,989)
Total Group operating profit/(loss)		(724)	40,491
Provision for loss on discontinued operations		(2,460)	-
(Loss)/profit on ordinary activities before tax		(3,184)	40,491
Tax credit/(charge) on profit on ordinary activities	6	1,521	(3,986)
(Loss)/profit for the financial year		(1,663)	36,505
Dividend distributions during the year	7	-	(105,000)
Retained loss for the financial year		(1,663)	(68,495)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £'000	2005 £'000
(Loss)/profit for the financial year	(1,663)	36,505
Loss on revaluation of investments in subsidiary undertakings	-	(160)
Loss on revaluation of investments	-	(2,236)
Goodwill write-off	-	(33)
Total recognised gains and losses	(1,663)	34,076

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2006

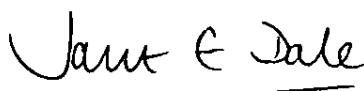
Assets	Note	2006 £'000	2005 £'000
Investments			
Investments in group undertakings and participating interests	8(i)	2,608	4,500
Other financial investments	8(ii)	359,064	350,143
		361,672	354,643
Reinsurers' share of technical provisions			
Provision for unearned premiums	18	10,770	9,104
Claims outstanding		4,375	4,794
		15,145	13,898
Debtors			
Debtors arising out of direct insurance operations - policyholders		61,630	58,306
- intermediaries		33,393	27,123
		95,023	85,429
Debtors arising out of reinsurance operations		1,154	1,107
Other debtors		35	59
		96,212	86,595
Other assets			
Tangible assets	9	605	764
Cash at bank and in hand		179	1,258
		784	2,022
Prepayments and accrued income			
Accrued interest and rent	18	7,002	6,921
Deferred acquisition costs		43,352	41,590
		50,354	48,511
Total assets		<u>524,167</u>	<u>505,669</u>

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2006

Liabilities		2006	2005
	Note	£'000	£'000
Capital and reserves			
Called up share capital	10	3,500	3,500
Share premium account		96,053	96,053
Revaluation reserve	11	(6,904)	(2,318)
Profit and loss account	11	35,721	32,798
Equity shareholders' funds		128,370	130,033
Technical provisions	18		
Provision for unearned premiums		143,956	149,507
Claims outstanding		133,289	138,111
Equalisation provision		42,404	38,595
Provision for unexpired risks		702	637
		320,351	326,850
Provision for other risks and charges	12	3,060	3,118
Creditors; amounts falling due within one year			
Creditors arising out of direct insurance operations		3,490	3,043
Creditors arising out of reinsurance operations		7,451	7,011
Other creditors, including taxation and social security	14	55,638	30,175
		66,579	40,229
Accruals and deferred income		2,307	1,939
Total current liabilities		392,297	372,136
Creditors; amounts falling due after more than one year			
Preference shares	10	3,500	3,500
Total liabilities and shareholders' funds		524,167	505,669
Reconciliation of movements in shareholders' funds			
Balance at 1 January		130,033	200,957
Total recognised gains and losses		(1,663)	34,076
Dividends	7	-	(105,000)
Balance at 31 December		128,370	130,033

The notes on pages 15 to 25 form an integral part of these financial statements

The financial statements on pages 11 to 25 were approved by the directors on 13 March 2007 and were signed on their behalf by



J E Dale, Director

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies

a) Basis of preparation

The financial statements conform to applicable accounting standards and have been prepared on a going concern basis under the historical cost convention, modified by the revaluation of certain fixed assets, and in accordance with the Companies Act 1985 and applicable accounting standards. They conform to the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (the "ABI SORP") issued in December 2005.

The principal accounting policies are set out below.

b) General insurance

Results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting.

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time-apportioned basis. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses or, with regard to reinsurance outwards, as deferred income.

Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, of

- (i) claims reported but not settled,
- (ii) claims incurred but not yet reported

An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

General insurance provisions, together with related reinsurance recoveries, are established on the basis of current information. Such provisions can never be definitive as to their timing nor the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

Equalisation provisions have been established in accordance with the FSA's Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985, to be included within technical provisions.

c) Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at the Company's share of their current value. Gains and losses on interests in subsidiary undertakings are taken directly to the revaluation reserve.

d) Capital expenditure

Expenditure on computers, motor cars and large items of equipment is depreciated over periods ranging up to four years, having regard to expected residual values. All other items of capital expenditure are charged to the profit and loss account as incurred.

LEGAL AND GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies (continued)

e) Investments

(i) General

Investment return, comprising investment income, investment gains and losses less related expenses and investment expense, is included in the non-technical account

(ii) Investment income

Investment income includes dividends and interest. Directly related investment expenses are reported separately within investment expenses and charges. Interest is included on an accruals basis. Dividends are accrued for on an ex-dividend basis net of associated tax credits.

(iii) Interest expense

Interest expense reflects the underlying cost of borrowing and is reported in investment expenses and charges on an accruals basis.

(iv) Investment valuations

Listed investments are shown at market value. There are no holdings of unlisted investments.

(v) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Unrealised gains and losses are separately presented in revaluation reserve within the balance sheet, since they are not distributable.

f) Deferred tax

Deferred tax is recognised in respect of timing differences which have not reversed at the balance sheet date and which result in an obligation to pay more tax, or a right to pay less tax, at a future date. Deferred tax is measured at rates expected to apply when the timing differences reverse, based on current tax rates and law. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

g) Preference shares

Preference shares meeting the definition of a financial liability under the provision of FRS 25, Financial Instruments: disclosure and presentation, are classified within Creditors and the associated dividends are classified as interest.

h) Dividend recognition

Dividend distribution to the Company's shareholders is recognised in the period in which dividends are declared and approved.

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

2. Class segmental analysis	2006	2005
	£'000	£'000
Gross premiums written		
Accident & Health	57,235	56,452
Fire & other damage to property	239,914	233,684
Other business	<u>15,049</u>	<u>14,164</u>
Total Continued	312,198	304,300
Discontinued – Motor (third party liability and other classes)	12,062	31,667
	<u>324,260</u>	<u>335,967</u>
All premiums result from contracts written in the United Kingdom		
Gross premiums earned		
Accident & Health	58,077	54,469
Fire & other damage to property	235,298	223,935
Other business	<u>14,290</u>	<u>16,661</u>
Total Continued	307,665	295,065
Discontinued – Motor (third party liability and other classes)	22,146	36,027
	<u>329,811</u>	<u>331,092</u>
Gross claims incurred		
Accident & Health	23,928	37,177
Fire & other damage to property	158,139	137,872
Other business	<u>1,206</u>	<u>2,751</u>
Total Continued	183,273	177,800
Discontinued – Motor (third party liability and other classes)	17,957	30,798
	<u>201,230</u>	<u>208,598</u>
Gross operating expenses		
Accident & Health	16,480	14,131
Fire & other damage to property	87,502	81,669
Other business	<u>4,468</u>	<u>3,641</u>
Total Continued	108,450	99,441
Discontinued – Motor (third party liability and other classes)	10,500	10,320
	<u>118,950</u>	<u>109,761</u>
Reinsurance balance		
Accident & Health	2,993	2,275
Fire & other damage to property	10,713	10,020
Other business	<u>4,655</u>	<u>3,221</u>
Total Continued	18,361	15,516
Discontinued – Motor (third party liability and other classes)	(501)	1,397
	<u>17,860</u>	<u>16,913</u>
Balance on the technical account for general business		
Accident & Health	14,676	886
Fire & other damage to property	(24,879)	(10,074)
Other business	<u>4,023</u>	<u>7,409</u>
Total Continued	(6,180)	(1,779)
Discontinued – Motor (third party liability and other classes)	(5,923)	(6,988)
	<u>(12,103)</u>	<u>(8,767)</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

3. Net operating expenses	2006	2005
	£'000	£'000
Acquisition costs	103,845	95,063
Change in deferred acquisition costs	(1,762)	(2,666)
Administrative expenses	16,867	17,363
Reinsurance commissions and profit participation	(4,194)	(4,106)
	<u>114,756</u>	<u>105,654</u>

The above figures include commissions for direct business amounting to 72,299 61,207

4 Auditor's remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of these financial statements were £103,690 (2005 £94,165)

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because these have been disclosed in the consolidated accounts of Legal & General Group Plc. The 2005 auditors' remuneration is presented on a comparable basis following changes in the legislation regarding auditors' remuneration disclosures

5. Investment return	2006	2005
	£'000	£'000
(i) Investment income		
Income in respect of other investments		
- received from group undertakings	7	839
- received from other sources	22,668	21,130
	<u>22,675</u>	<u>21,969</u>
(ii) Unrealised investment (losses)/gains	<u>-</u>	<u>715</u>
(iii) Investment expenses and charges		
Bank loans and overdrafts	-	(1)
Other borrowings	(986)	(235)
Investment management expenses	(527)	(519)
Realised investment losses	(3,291)	(486)
Unrealised losses on investments	(8,803)	-
Preference share dividends	(149)	(153)
	<u>(13,756)</u>	<u>(1,394)</u>
Total investment return	<u>8,919</u>	<u>21,290</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

6. Tax (credit)/charge	2006 £'000	2005 £'000
UK Corporation tax at 30% (2005 30%)		
- current tax for the year	1,448	5,865
- adjustments in respect of prior periods	(451)	(589)
Total current tax	<u>997</u>	<u>5,276</u>
Deferred tax		
- origination and reversal of timing differences	(2,518)	(1,290)
Tax on (loss)/profit on ordinary activities	<u>(1,521)</u>	<u>3,986</u>

Factors affecting current tax charge for the period

The tax assessed for the period is higher (2005 lower) than the standard rate of corporation tax in the UK (30%) (2005 30%) The differences are explained below

	2006 £'000	2005 £'000
(Loss)/profit on ordinary activities before tax	<u>(3,184)</u>	<u>40,491</u>
Corporation tax at 30%	(955)	12,147
Effects of		
Disallowable expenditure	407	163
Adjustments in respect of prior periods	(451)	(588)
Capital allowances for period in excess of depreciation	(280)	(300)
Non-taxable profit on sale of subsidiary	-	(8,390)
Loss on sale of fixed assets	18	-
Difference between taxable and accounting investment gains/losses	2,149	2,244
Taxable reserve adjustment	109	-
Current tax charge for period	<u>997</u>	<u>5,276</u>

Factors which may affect future tax charges

The Company had unrelieved capital losses carried forward at 31 December 2005 of £11,192,000. The company is no longer carrying forward these losses at 31 December 2006 as they have been utilized by other Legal & General Group subsidiaries during the year

The potential deferred tax asset unrecognised as at 31 December 2006 is £Nil (2005 £3,358,000)

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

7. Dividends	2006	2005
	£'000	£'000
Equity shares		
2006 dividend per share £Nil (2005 £30)	-	105,000
	<hr/>	<hr/>
8. Investments	2006	2005
	£'000	£'000
(i) Investments in group undertakings and participating interests		
Shares in group undertakings	2,608	2,608
Loans to group undertakings	-	1,892
	<hr/>	<hr/>
	2,608	4,500
	<hr/>	<hr/>
<p>On 31 March 2005 the Company sold its 90% holding of shares in Gresham Insurance Company Ltd to Barclays Bank Plc for £80,693,703. At that date the Company's share of the net assets of Gresham was valued at £52,630,925. After deducting legal expenses of £94,832 this resulted in a profit on sale of £27,967,946.</p> <p>On 31 March 2005 the Company also sold its 10% holding in Woolwich Insurance Services Ltd to Barclays Bank Plc for £640,700 being the value of the Company's share of the net assets of Woolwich Insurance Services Ltd at 31 March 2005.</p>		
(ii) Other financial investments		
Debt securities and other fixed income securities	353,237	313,967
Deposits with credit institutions	5,827	36,176
	<hr/>	<hr/>
	359,064	350,143
	<hr/>	<hr/>
Total investments	361,672	354,643
	<hr/>	<hr/>
Listed investments included in current values above	353,237	313,967
	<hr/>	<hr/>
Original cost of investments:		
Investments in group undertakings and participating interests	11,077	12,969
Debt securities and other fixed income securities	360,141	311,029
Deposits with credit institutions	5,827	36,176
	<hr/>	<hr/>
	377,045	360,174
	<hr/>	<hr/>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

9. Tangible assets	2006	2005
Fixtures, fittings, tools and equipment (principally computer equipment)	£'000	£'000
Cost		
Balance at beginning of year	2,689	2,198
Additions	276	698
Disposals	(524)	(207)
Balance at end of year	2,441	2,689
Depreciation		
Balance at beginning of year	1,925	1,718
Provided during the year	268	418
Disposals	(357)	(211)
Balance at end of year	1,836	1,925
Net book value at 31 December	605	764

10. Share capital	2006	2005
	£'000	£'000
<i>Authorised and issued, fully paid</i>		
Equity interests - 3,500,001 ordinary shares of £1 each	3,500	3,500
<i>Authorised and issued, fully paid</i>		
Preference Shares - 3,499,999 floating rate cumulative preference shares of £1 each	3,500	3,500

Preference shares are included within liabilities in accordance with the requirements of FRS25

Rights of preference shareholders

Total dividends for 2006 of £149,000 (2005 £153,000), are payable half yearly on 1 June and 1 December and rank in priority to any other class of shares. On winding-up or redemption the preference shareholders are entitled, in priority to any other class of shares, to the capital repayment plus the proportion of dividends due. There are no voting rights attaching to the preference shares other than for a resolution for winding-up the Company or reducing its capital.

11. Movements in reserves	Revaluation Reserve	Profit and loss Account
	£'000	£'000
Balance at 1 January 2006	(2,318)	32,798
Retained loss	-	(1,663)
Unrealised investment transfer	(4,586)	4,586
Balance at 31 December 2006	(6,904)	35,721

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

12. Provisions for other risks and charges

	Deferred Tax	Provision for Discontinued Operation	Total
	£'000	£'000	£'000
At 1 January 2006	3,118	-	3,118
Profit and loss account charge	(2,518)	2,872	354
Utilised in year	-	(412)	(412)
At 31 December 2006	600	2,460	3,060

	2006 £'000	2005 £'000
Deferred tax		
The balance for deferred tax consists of the following amounts		
The excess of depreciation over capital allowances	(900)	(1,047)
Other timing differences	1,500	4,165
	<u>600</u>	<u>3,118</u>

Provision for Discontinued Operation

The provision for Discontinued Operation represents provision for the costs of termination of the book of motor business which the Company ceased writing on 1st September 2006. The provision has been set based on the directors' estimate of the likely costs involved. It is estimated that all the costs associated with running off the business will be incurred by 31 December 2007.

13. Retirement benefits

The Company has no direct employees and hence makes no direct contributions towards retirement benefits.

14. Analysis of other creditors

	2006 £'000	2005 £'000
Corporation tax payable	3,986	8,396
Amounts owed to group undertakings	45,040	13,317
Other creditors	6,612	8,462
	<u>55,638</u>	<u>30,175</u>

15. Holding company

The holding company is Legal & General Assurance Society Limited, a company incorporated in Great Britain. Legal & General Assurance Society Limited is exempt from the obligation to prepare and deliver group accounts as it is a subsidiary of Legal & General Group Plc, a company incorporated in Great Britain and the ultimate holding undertaking which consolidates the financial statements of the Company. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available at the Registered Office, Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

16. Principal subsidiaries

The principal operating subsidiaries of Legal & General Insurance Limited are listed below. Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares, all of which are held by the Company. None of the subsidiary undertakings omitted from the list materially affects the profits or assets of the Company.

Held directly by the Company	Nature of Business	Incorporated In
Southgate Associates Limited	Holding company	Great Britain
Held indirectly through subsidiary undertakings		
Glanfield Securities Limited	Investment company	Great Britain
Legal & General Investment Trust Limited	Investment company	Great Britain

17. Equalisation provisions

As explained in the accounting policy 1(b) on page 15, an equalisation provision is established in the financial statements. The effect of this provision is to reduce the shareholders' funds by £42,404,000 (2005: £38,595,000). The increase in the provision during the year has had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before tax by £3,809,000 (2005: £4,443,000).

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

18. Technical provisions	At 31 December 2005 £'000	Technical Account Movement £'000	At 31 December 2006 £'000
Unearned premiums			
Gross	149,507	(5,551)	143,956
Reinsurance	(9,104)	(1,666)	(10,770)
Net	140,403	(7,217)	133,186
Unexpired risks			
Gross	637	65	702
Reinsurance	-	-	-
Net	637	65	702
Outstanding claims			
Gross	138,111	(4,822)	133,289
Reinsurance	(4,794)	419	(4,375)
Net	133,317	(4,403)	128,914
Equalisation provision	38,595	3,809	42,404
Deferred acquisition costs			
Gross	(41,590)	(1,762)	(43,352)
Reinsurance	1,841	466	2,307
Net	(39,749)	(1,296)	(41,045)
Total	273,203	(9,042)	264,161
Segmental analysis			
Accident & Health	40,418	(12,014)	28,404
Motor (third party liability and other)	43,238	(12,395)	30,843
Fire & other damage to property	178,680	17,089	195,769
Other business	10,867	(1,722)	9,145
	273,203	(9,042)	264,161

Equalisation provisions are calculated in accordance with statutory formulae. The increase for household business is 3% of net premiums written and for credit business is 12% of net premiums written. These provisions are in addition to those for the anticipated cost of settlement of policyholders' liabilities.

A reduction in the provision for outstanding claims for the Accident & Health book of £14m was made during 2006. This is due to a change in the directors' views of the estimated ultimate losses for claims incidents in existence at the year end, as a result of the expected period during which these claims were expected to be settled being restricted up to the subsequent policy renewal date.

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

19. Related party transactions

The Company has taken advantage of the exemptions under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of Legal & General Group Plc or investees of Legal & General Group Plc. The directors and key management of the Company had no material transactions with the Company or any other group undertakings.

20. Cash flow statement

In accordance with FRS 1 'Cash Flow Statements (Revised 1996)' the Company has not prepared a cash flow statement as the ultimate holding company, Legal & General Group Plc, has included a group cash flow statement within its financial statements.

21. Contingent liabilities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them.

Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them (together in this paragraph "liabilities"). The extent of such liabilities is influenced by the actions of the FSA, by ombudsman rulings, by industry compensation schemes and by court judgements. It is not possible to predict, with certainty, the extent and the timing of the financial impact to which these liabilities may give rise. The Company considers that it has made prudent provision for such liabilities, as and when circumstances calling for such provision become clear, and that it has adequate capital and reserves to meet all reasonably foreseeable eventualities.

22. Directors' emoluments

Directors' remuneration

Emoluments of the directors are as follows

	2006 £'000	2005 £'000
In respect of services as directors		
Aggregate emoluments	<u>607</u>	<u>582</u>
The emoluments of the highest paid director, excluding pension contributions were	<u>169</u>	<u>122</u>

Defined benefits accrued to 2 (2005: 3) directors under a defined benefit pension scheme.

Directors' loans

At 31 December 2006 there were no loans to directors (2005: None).

Directors' transactions and arrangements

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 2006.